

1                                   **REBUTTAL TESTIMONY (SECOND)**

2                                   **OF**

3                                   **NEVILLE O. LORICK**

4                                   **ON BEHALF OF**

5                                   **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

6                                   **DOCKET NO. 2004-178-E**

7  
8   **Q.     PLEASE STATE YOUR NAME.**

9   **A.     Neville O. Lorick**

10 **Q.     HAVE YOU PREVIOUSLY TESTIFIED IN THESE PROCEEDINGS?**

11 **A.     Yes.**

12 **Q.     STAFF WITNESSES SCOTT AND WATTS HAVE EACHED FILED**  
13 **SUPPLEMENTAL DIRECT TESTIMONY DISCUSSING THE STIPULATION**  
14 **AND SETTLEMENT AGREEMENT REACHED BETWEEN THE COMPANY**  
15 **AND THE COMMISSION STAFF. WILL YOU PLEASE COMMENT ON THIS**  
16 **STIPULATION AND AGREEMENT FROM THE COMPANY’S PERSPECTIVE?**

17 **A.     Yes. The Company believes this Stipulation and Agreement reflects a reasonable**  
18 **resolution of the issues in this case and urges its approval by the Commission.**

19               The Staff Auditors have done a very thorough job of reconciling the line item  
20 adjustments reflecting the negotiated amount of \$51,149,000 net revenue to be recovered  
21 in this case. I would like to make a more general observation as to why we believe this  
22 settlement is appropriate.

1           We began this process with an authorized 12.45% rate of return based on  
2           Commission Order 2003-38. At the time of the filing of our Application, we realized that  
3           we were in a period of lower interest rates and therefore, should adjust our ROE request;  
4           however, we believe these rates are far from stable and there are clear indications that  
5           they may be rising again. Therefore, we requested an ROE of 11.75%. Another reason  
6           underlying the requested ROE is the fact that over the last fourteen (14) years, the  
7           Commission has historically set an ROE for the Company in the 11%-12% range. Our  
8           apprehension was that an ROE out of this range would send a signal to the investment  
9           markets that would reflect a change in regulatory stability, adversely affecting the  
10          Company, its rate payers and shareholders.

11          At 11.75% ROE, the revenue request was approximately \$81 million. Our  
12          negotiations with the Staff however, have resulted in an agreed upon 10.9% ROE which,  
13          with agreed-upon staff audit adjustments, will result in approximately \$51.1 million in  
14          revenue. This is approximately 63% of what we have sought in our Application.

15          We have been guided in this process by S.C. Code Ann. §58-4-50(A)(9) which  
16          specifically encourages the resolution of disputes by the parties. We hope that these  
17          negotiations and the stipulated settlement reflect the commitment of the Company to the  
18          negotiation process contemplated by this statute.

19          The settlement which we have reached with the Staff is a settlement of the case in  
20          its entirety as is meant to be considered as a whole. While the accounting adjustments  
21          are important to our accounting department and your auditing staff, the principal forces in  
22          arriving at the Agreement were achieving a rate of return on equity and a minimum  
23          revenue requirement with which the Staff could be comfortable and within which the

1 Company could live. These are the essential factors of the settlement. The Staff and the  
2 Company believe that the line item adjustments are the appropriate way to achieve these  
3 end results. It was essentially this revenue adjustment and the resulting impact on rates  
4 which have prompted several intervenors in this case to also concur in this Stipulations  
5 and Agreement.

6 I respectfully urge the Commission to approve the Stipulation and Agreement  
7 presented to you.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.